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Near East and South Asia Review

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**Near East and
South Asia Review** 

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Arabian Peninsula: Prospects for Political Change 

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The traditional authoritarian governments of the Arabian Peninsula will face increased political, economic, and social pressures over the next decade, and most, if not all, regimes probably will undergo political change before the end of the century. 


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Israel: Will Debt Spoil the Economic Outlook 

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The Israeli economy has made great strides toward economic recovery in the past year, but continued progress will hinge on the government's willingness to reduce spending while holding the line on budget deficits. Israel's debt structure, although currently not a great burden, may in the next few years present serious problems for the government. 


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Economic Austerity in Iraq 

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Economic austerity measures are beginning to take a toll on the Iraqi people. The rapid decline in oil prices is forcing Iraq to implement measures that probably will lead to a significant decline in the fairly good living standards Baghdad has maintained for its populace since the beginning of the war with Iran. 


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Iraq's New Mobilization 

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Iraq recently began calling up at least 200,000 men, probably because it is concerned about improved Iranian military capabilities and believes that the next Iranian offensive could decide the war. Bolstering the Army with new soldiers will not compensate for poor leadership and may eventually undermine support for the regime. 

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Iraq: Removal of Ba'thist Hardliner Na'im Haddad

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The recent dismissal of Na'im Haddad from the leadership in Iraq represents a further erosion in the influence of party ideologues. His removal and his replacement by a moderate Ba'thist bode well for Western interests in Iraq.

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Letter From Tehran

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In a hypothetical letter to an Iranian friend who left the country after the revolution, a Western-educated technocrat describes conditions facing returning emigres, outlines how his colleagues have coped with Islamic radicalism, and speculates about the future.

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Afghanistan: The Private Sector in a Socialist Economy

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Recent public statements by Afghan officials emphasizing the role the private sector plays in Afghanistan's state-controlled economy are motivated by economic necessity and a desire for public support and do not represent a slackening in the regime's commitment to socialism.

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India: Split in the Akali Dal

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Three months after Punjab Chief Minister Barnala removed a band of Sikh extremists from the Golden Temple, his moderate Akali Dal Party has split and his political future is threatened. The split will hinder New Delhi's ability to implement last summer's Punjab accord and allow extremists to exploit dissent among the moderates.

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Bangladesh: Tribal Unrest in the Chittagong Hills

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An upsurge in fighting this spring between settlers from other parts of Bangladesh and indigenous tribals in the Chittagong Hill Tracts forced India to take in some 24,000 refugees, but the unrest poses little political danger to President Ershad because it is remote from main population centers.

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Some articles are preliminary views of a subject or speculative, but the contents normally will be coordinated as appropriate with other offices within CIA. Occasionally an article will represent the views of a single analyst; these items will be designated as noncoordinated views.

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Near East and South Asia Review

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Articles

Arabian Peninsula: Prospects for Political Change

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The traditional authoritarian governments of the Arabian Peninsula will face increased political, economic, and social pressures over the next decade, and most, if not all, regimes probably will undergo political change before the end of the century. The smaller Gulf states are the most vulnerable to political unrest and upheaval, but even the Saudi monarchy is likely to undergo significant change that will reduce royal family control over decisionmaking. Political change would not necessarily be inimical to US interests, but instability probably would invite meddling by external elements hostile to the United States.

influences, most internal changes were merely cosmetic. Significant structural change was initiated only in Bahrain and Kuwait—the most urban and socially developed of the Gulf states—in the form of labor unions, political parties, legislatures, and formal constitutions, but even these limited changes were eventually blunted by ruling families unwilling to jeopardize their political control.

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The political stability of these states over the past 30 years has been particularly remarkable in light of the rapid and extensive economic and social development they have undergone. This stability was the product of a confluence of factors that made these states unique within the Middle East and enabled traditional ruling families to maintain political power:

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The structural weaknesses and political vulnerabilities of the traditional authoritarian regimes of the Arabian Peninsula—Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates, and Oman—frequently are overlooked or discounted by political observers because of their recent impressive record of political stability. Comparisons with the Iranian experience are minimized because of the extensive differences between Persian society, culture, and politics and those of the Sunni regimes on the Arab side of the Gulf. Denials of an Arab-Persian parallel ignore the fragility of these states, however, and usually result in overly optimistic assessments of their ability to weather the political challenges ahead.

- *Oil wealth.* The most significant influence on the Persian Gulf region over the past 30 years has been oil-generated economic prosperity. The standard of living of most residents of the Gulf states has increased dramatically, and political leaders have been able to buy supporters and co-opt potential critics with petrodollars. Consequently, economic disaffection, frequently a source of political activism in other Middle Eastern states, has been insignificant.

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Foundations of Stability

While labor unions, student groups, Islamic organizations, nascent political institutions, leftist movements, and secular ideologies were transforming the internal politics of most Middle Eastern states beginning in the 1950s, the political development of the Arab Gulf states moved at a glacial pace. Although most Gulf states experienced limited effects of these regional political developments and

- *Small, rural, and mostly uneducated populations.* Inhospitable climates, poor medical care, virtually no resources other than oil, and terrain unsuitable for agriculture kept populations mostly sparse and scattered until the 1970s. Moreover, literacy rates and educational levels were extremely low, and indigenous intelligentsias were numerically insignificant. Burgeoning public and private sectors

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easily assimilated the few university graduates among the native populations, usually at highly inflated salaries.

- *Undeveloped political institutions.* The simplicity of the tribal political system and the lack of a tradition of popular participation in government allowed the ruling families to rule virtually unchallenged. The few politically significant interest groups that did exist were generally co-opted by regimes once oil money began to flow with some regularity in the 1950s. Political power in these states traditionally had been the preserve of tribes that controlled the greatest resources—men, herds, water, trading routes—and Western political institutions like political parties, elections, free press, and legislative bodies were foreign concepts that had little popular support or relevance. Bahrain abandoned its parliamentary experiment in 1975, and Kuwait's ruling Sabah family dissolved the National Assembly in 1976 and again in 1986 when it began to challenge the authority of the regime. This dearth of channels for political participation helped thwart nascent political activism throughout the Gulf states.
- *Limited foreign exploitation.* Although all of the Gulf states had some experience of foreign occupation and influence, outside powers made little attempt to colonize the region. Unlike the Levant, Egypt, and North Africa, where there was extensive exploitation and development of indigenous resources by colonial powers, the Gulf states were valued only for their ports and trading routes. Consequently, tribal systems were allowed to flourish, and traditional ruling families were in control when modern nation-states were founded in the 20th century. Foreign powers dealt mainly through existing tribal leaders, helping solidify the political control of traditional ruling families.
- *Fledgling military forces.* Despite a strong martial tradition among the tribes, the fledgling military forces of the Gulf states have been artificial and usually imported creations of the central government that pose little political threat to their stability. Native professional military officers frequently pursue their private business pursuits

with greater vigor, and the politization of junior officers that occurred in Egypt, Libya, Syria, Iraq, and the Yemens has not been imitated in the Gulf.

These factors and generally judicious rule have abetted political stability in the six Gulf states. The few abrupt internal political changes that took place in Saudi Arabia (1962), Abu Dhabi (1968), Oman (1970), and Qatar (1972) were internal family matters that displaced generally inept rulers. Although antiregime sentiment has been prevalent in the Gulf states for the past 30 years, no regime has been on the brink of collapse because of internal pressure.

1986-2000: A Period of Political Adjustment

The foundations of political stability of the past 30 years are eroding and becoming increasingly irrelevant, and changing political, economic, and social environments are likely to stimulate increased political activism in most Gulf Arab states before the end of the century. Ruling families will face more complex challenges to their rule as they try to meet the growing and frequently unrealistic expectations of increasingly educated and heterogeneous populations. Most—if not all—of these authoritarian regimes will be unable to meet these expectations and, as a result, will probably undergo significant change in their political systems. Some regimes may even be replaced. The principal factors contributing to increased political activity are:

- *Economics.* Even if oil export earnings were to increase over the next several years, the economies of the Gulf Arab states would rebound only gradually and are unlikely to return to the boom years of the 1970s. Government spending will remain below previous levels, and the growth of the private sector will continue to be slow. At the same time, a steadily increasing number of young and miseducated Gulf Arabs will be entering the labor market, only to be disappointed at the lack of business and employment opportunities. The resultant increase in underemployed Gulf Arabs will contribute to heightened political restiveness among youth. Moreover, conspicuous ruling family

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spending no longer offset by unbounded oil-induced prosperity will increase criticism of the regimes. Unlike in the 1970s when regimes co-opted critics and maintained popular support by freely dispensing petrodollars, lower revenue levels will prevent governments from employing the same strategy to alleviate economic and political problems.

- *Demographics.* The increasing urbanization, youth, and education of Gulf societies will present new and complex challenges to ruling families. Urban maladies like increasing crime rates, narcotics, and inadequate housing already are affecting major cities, and urban lower and lower-middle classes are the fastest growing segments of Gulf populations. The austere social environments of the Gulf states also are promoting restiveness among youth, who have been exposed to Western cultures but will be increasingly unable to afford diverting jaunts to Western playgrounds. At the same time, the growing literacy and educational levels of these populations—nearly one out of every four Gulf citizens is a student—will contribute to more politically astute, informed, and demanding populations.
- *Interest groups.* Rapid economic development in the Gulf has increased the influence and resources of several traditional and new interest groups—for example, the religious establishment, military and security services, major merchant families, technocrats, youth, women, and urban middle classes. Intelligentsias, the traditional spawning grounds of political activists in other Middle Eastern states, also are appearing throughout the Gulf states, and their scrutiny of government policies and their dissatisfaction with being excluded from participation in government are likely to mount. Also increasing will be interest group identification, especially if grievances with regimes become more pronounced and economic austerity leaves interest group expectations unmet. If governments continue to inhibit the development of political institutions that could serve as controlled channels for popular frustration, some interest groups may choose to engage in clandestine political activities.

- *Social tensions.* Growing tension between modernists and traditionalists in the Gulf Arab states will complicate regime efforts to satisfy their minimum and frequently contradictory demands. Although the forces of Islamic fundamentalism and social conservatism have been buttressed by the Iranian revolution, the forces of modernization and Westernization remain formidable. Social conservatives will try to prevent forcefully the growth of Western influence, increasing the likelihood of confrontation between the two groups.
- *Regional developments.* Another Arab-Israeli conflict, a widening or intensification of the Iran-Iraq war, a sharp upsurge in anti-US sentiment in the Arab world, or confrontations among Gulf states over border issues—all distinct possibilities before the end of the century—have the potential to weaken the political stability of the Gulf ruling families. The increased prominence and influence of these states in regional affairs increase chances they will become embroiled in regional conflicts. Their involvement will be closely evaluated by their own populations, and unpopular responses or failed policies might prompt domestic backlashes. These states also might become increasing targets of externally sponsored terrorism or sabotage, which would spark popular criticism of ruling family inability to provide protection from outside threats.

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Implications for US Interests

The gradual dilution of ruling family political power in the Arab Gulf states would not necessarily harm US interests. The inclusion of more commoners in decisionmaking—whether in executive or legislative bodies—and the development of more representative governments probably would have the greatest impact on internal policies. Nonetheless, relations with the United States probably would be subject to greater internal review and approval, and foreign policy decision making almost certainly would be slowed as a result. Stronger governmental criticism of US Middle East policies also probably would surface, but bilateral ties probably would not suffer a serious setback.

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A transfer of political power to established Western-educated elites like nonroyal government officials, technocrats, businessmen, or military officials probably would have little significant impact on bilateral relations with the United States or US economic and commercial interests in the country. Although such regimes probably would try to legitimize their rule by lending greater vocal support to popular Arab and Islamic causes, they probably would maintain the foreign policy orientation of current regimes. The major exception might be Bahrain, where a government controlled by the Shia majority probably would expand ties to Iran and seek to reduce Western influence in the country. [REDACTED]

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US interests would be most threatened by political instability that resulted in interference by countries or external groups hostile to the United States. Iran and fundamentalist Islamic, particularly Shia, organizations probably would try to exploit political unrest in any Gulf state by carrying out terrorist attacks or instigating trouble in Shia communities. Radical domestic groups probably would receive external support, and their antiregime activities probably would include an anti-US focus. [REDACTED]

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Israel: Will Debt Spoil the Economic Outlook?

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The Israeli economy has made great strides toward economic recovery in the past year, but continued progress will hinge on the government's willingness to reduce spending while holding the line on budget deficits. The budgetary process will come under added pressure in the final years of this decade when the government is scheduled to repay about \$4.7 billion to bank shareholders stemming from the bank share scandal—and subsequent stock market collapse—of October 1983. If the economy is not sufficiently stabilized, the large anticipated repayments, when combined with an already large outstanding debt repayment schedule, may strain the budget to the point that further spending cuts become problematical.

Israel's debt structure, although currently not a great burden on the economy, may in the next few years present serious problems for economic decision makers. This appears especially likely if borrowing, which constituted about 41 percent of total government revenue in Israeli fiscal year 1984/85, continues to play a leading role in financing government expenditure. If borrowing levels have to be increased—in response to greater revenue needs stemming from insufficient budget cuts—the government will find an ever-growing portion of the budget devoted to debt repayment.

Debt Structure

Conversations with Israeli officials indicate that the government is most concerned about domestic public debt growth. In 1985, domestic public debt—defined as total private-sector claims on the public sector—stood at 143 percent of GNP, up from 123 percent of GNP in 1984. This ratio is likely to increase greatly in light of the large anticipated bank share repayments the government will undertake from 1987 to 1989.

The government appears more confident that it can handle foreign debt because of its smaller relative size in the overall debt structure. Foreign public debt—total claims by foreigners on the public sector minus

foreign reserves—stood at 60 percent of GNP in 1985, up from 51 percent the previous year.

Debt maturity length is not currently a problem, but it could become more serious as the decade draws to a close. At the end of 1985, short-term debt constituted 14.7 percent of total debt, medium-term debt 15.3 percent, and long-term debt the remaining 70 percent. If the economy fails to achieve sustained economic growth and additional budget cuts are not forthcoming, debt maturity length may become important, especially if revenue shortfalls are made up by increased borrowing through short-term loans. Increased borrowings in 1986 and 1987 may further compound financing problems in 1988, when the bulk of the bank share repayment is to take place.

Bank Share Debt Fallout

The bank share scandal and subsequent stock market collapse of October 1983—caused by the questionable stock trading practices of Israel's leading banks—were resolved when the government agreed to purchase shares from individual holders at the full value of the shares, thereby assuming a large future debt obligation. Under terms of the bank stock guarantee program, the government promised to purchase from shareholders shares worth \$6.5 billion. To date, the government has redeemed about \$1.8 billion, leaving \$4.7 billion still to be purchased. Current plans call for the government to absorb \$1 billion in either 1987 or 1989, while redeeming the remaining \$3.7 billion in 1988.

The bank stock purchase of \$1 billion in 1987 or 1989 should not overly strain the economy, but the 1988 payment of \$3.7 billion may have negative long-term implications. The government's most likely approach will be to redeem the \$3.7 billion in shares through a firm created by the government and eventually resell them to the public. The government would lend the firm the necessary funds to buy the shares. By 1993

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When Is Debt Unmanageable?

Manageability of external debt by a country is generally determined by the ability to service the debt on a timely basis. This entails making interest and amortization payments as scheduled. This, in turn, depends on several factors, including inflows of foreign capital, growth of exports, control of import growth, and exogenous factors such as commodity prices and interest rates. Countries therefore can run into debt problems through their own mismanagement or from external economic conditions.

Various ratios may be used as indicators of debt-servicing problems. The traditional debt-service ratio indicates what share of exports, the principal foreign exchange source for most countries, is being devoted to servicing the debt. A ratio of 50 percent or higher usually signifies a strain on a country's resources. Similarly, total debt compared with gross domestic product generally indicates the burden of the debt on a country. Another key indicator is the ratio of net foreign capital inflows to debt-service payments. As long as this ratio is greater than one, the country should be able to meet its debt obligations. If the figure falls below one, the country would have to run a trade surplus or draw down foreign exchange reserves to avoid a liquidity problem.

Thus, external debt problems will arise if a country's international payments cannot be balanced without major changes in the level of either imports or debt

servicing. In general, a problem can be traced to specific components of the balance of payments. Such items could include: export shortfalls due to declining commodity prices or world recession, reductions in worker remittances, excessive imports due to an overvalued exchange rate or price rises, higher interest payments because of increasing world interest rates, a slowdown or cessation of foreign capital inflows, capital flight, or a bunching of amortization payments.

With regard to domestic debt, the main concern is with choosing a maturity structure for new debt issues that minimizes debt-servicing interest costs and at the same time enhances monetary stability. Problems occur when interest costs are high with debt at long-term maturities and when a large volume of short-term debt at low interest rates acts as a substitute for money and continually needs to be refinanced.

How Does Israel Stack Up?

By using the various debt ratios outlined above, Israel does not appear to have significant debt-servicing problems. The debt-service ratio, which expresses debt-service payments as a percentage of export earnings, stood at 42.1 percent in 1985, up only marginally from the 1984 figure of 41.8 percent. Furthermore, the ratio of total debt to GNP was 139

the firm would have to repay the government, or the government would have to reclaim the shares or transform the \$3.7 billion loan to the firm into a grant.

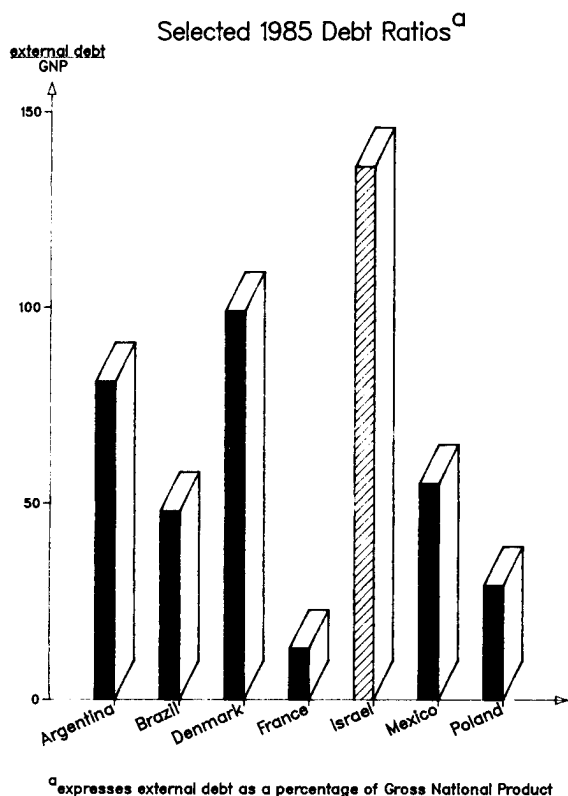
In any case, the government will have to make interest payments to bank stock shareholders on any replacement bonds or paper issued. Larger interest payments, when combined with increased total

internal debt, will increase the pressure to compromise in the budgetary process. Budgetary inaction, in which no further steps are taken to reduce the budget deficit, would probably result if the government were faced with the difficult task of drastically reducing social services to accommodate larger anticipated debt service payments.

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percent last year, while the ratio of net foreign capital inflows to debt-service payments was 1.11, both within the bounds of debt manageability.

Current conditions, however, could change drastically in the next few years. Poor export growth, when combined with the impending bank share repayments, may push the debt-service ratio over 50 percent, straining an already financially strapped Israeli economy. In addition, any decline in US economic assistance, which makes up a large part of net foreign capital inflows, would add to a worsening debt situation.

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Outlook

Israel's long-term economic outlook depends not only on the ability of the economy to sustain meaningful growth while fundamental changes in the economic system are implemented, but also on the government's ability to keep debt growth within manageable limits. If the economy fails to perform to expectations, the government will be hard pressed to undertake meaningful long-term economic reforms. A sputtering economy may then lead to an increasingly larger share of the government's budget being devoted to debt repayment.

The scheduled government rotation in October will be an important test because, if then Prime Minister Shamir can build upon the economic gains achieved by Peres, the economy will be better able to weather larger debt payments. Given Likud's poor economic track record, it may encounter serious problems in coordinating economic policy with Labor, thereby imperiling the gains made during the past year and worsening prospects for controlling debt in the future.

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Economic Austerity in Iraq

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Economic austerity measures are beginning to take a toll on the Iraqi people. The rapid decline in oil prices is forcing Iraq to implement measures that probably will lead to a significant decline in the fairly good living standards Baghdad has maintained for its populace since the beginning of the war with Iran. Combined with mounting casualties from recent Iraqi military losses and increased mobilization efforts for an anticipated Iranian offensive later this year, the war is becoming more grim for the populace. Although additional Saudi and Kuwaiti aid could moderate the decline in the economy, Iraqis will not see major improvements until the war ends or oil prices rebound.

Impact of Decline in Oil Prices

The rapid and large fall in oil prices since the beginning of the year has left Baghdad with little recourse but to slash nonmilitary spending, including imports and government subsidies. We estimate that export revenues—about 95 percent from oil sales—will decline to about \$7.4 billion this year, from \$11.4 billion in 1985. In addition, Saudi Arabia and Kuwait, their own budgets pinched, have reduced aid so far this year. Defense expenditures have not been cut and, in our view, are not likely to be reduced, given recent fighting and Iraq's expectation of a major Iranian offensive later this year.

The heightened level of fighting this year has increased the burden of the war on the Iraqis. Military setbacks early this year at Al Faw and more recently at Mehran, as well as the large number of casualties, have reduced military and civilian morale. In anticipation of an Iranian offensive, the government has increased its mobilization efforts. Recent attacks by both Iraq and Iran on economic targets in Baghdad and Tehran have increased the chances of a resumption of the "war of the cities."

Iraqi Insulation From Economic Hardships Eroding

Lower oil revenues are forcing the Iraqi leadership into uncharted territory. Following the oil price

increases of the early 1970s, the regime helped maintain public support for its policies, in particular the war with Iran, by insulating the public from economic hardships. The government's policies included:

- Heavily subsidized public services with some provided free.
- Subsidies to maintain low prices on basic necessities such as food and pharmaceuticals.
- Price controls on many other goods.
- Gifts, or sales at below cost, of big-ticket consumer items to military officers, martyrs' families, and other politically favored groups.

After oil prices peaked in 1981 and the war dragged on, the government gradually reduced its largess. Baghdad initially softened the decline by using about \$30 billion in accumulated foreign exchange reserves, drawing on another \$30 billion in "soft" loans from Arab allies, and running up foreign debts of about \$10 billion. Although the 1982-83 austerity measures cut imports in half, the reduction was achieved largely by canceling, postponing, or curtailing large development projects rather than cutting consumer goods imports. By early this year, the sharp drop in oil prices and the rising debt burden made the regime's policies increasingly unaffordable.

Initial Confusion Delays Austerity

Initial disagreement among the Iraqi leadership over how to respond to the collapse in oil prices delayed the full impact of lower oil prices on the Iraqi populace. President Saddam first created a "Presidential Committee" to make foreign exchange allocations. This undermined First Deputy Prime Minister Ramadan's economic authority—he had long had responsibility for major economic decisions—and caused bottlenecks in implementing austerity measures. In July, Saddam, who also was trying to manage the war, found that he could not handle the day-to-day operations of the economy and returned economic authority to Ramadan.

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Ramadan Regains Economic Authority

First Deputy Prime Minister Taha Yasin Ramadan regained broad powers over economic decision making at the extraordinary meeting of Iraq's ruling Ba'th Party in July. President Saddam Husayn, who summoned the party leaders to the surprise session, returned to Ramadan authority that Saddam had appropriated for himself earlier in the year. Ramadan's "victory" over Saddam reflects his ability to manage economic affairs and control the technocratic elite in Iraq's extensive—and crucial—bureaucracy. []

Ramadan's Power

Ramadan's power stems from his ability to manage Iraq's economic affairs. Ramadan has been able to do this, in part, because he had established control over Iraq's bureaucratic elite. His experts in key economic ministries carry on the day-to-day operations of the government and are in charge of strategic economic planning and budgets. This technocratic corps plays a key role in Iraq's command economy, in which practically every area of society is bureaucratized. []

The First Deputy not only directs these technocrats but also has been able to weld them into an effective political constituency. According to the US Embassy, Ramadan reacted to his loss of authority to Saddam earlier this year by refusing to carry out decrees from the newly created Presidential Committee without a direct order from the President. As a result, activity in the economic ministries practically ground to a halt. []

Western diplomatic sources in Baghdad cite additional explanations for Ramadan's success in hanging on to his bureaucratic turf. The feisty First Deputy is extraordinarily gutsy—a quality that is effective in getting his way against Saddam. Ramadan also has extensive contacts in the party that have been developed over a 30-year period.

[] these supporters rallied behind him at the July meeting and pressed Saddam to return authority to Ramadan. []

Crackdown on Luxury Items

Baghdad is cracking down on luxury products out of respect for those killed in the war, to weaken criticism of secular Ba'thist rule, and to save foreign exchange. According to the US Embassy, Iraq imposed much stricter rules during the holy month of Ramadan this year than last. Alcohol sales and eating in public were prohibited, all nightclubs were closed, and about 1,000 Filipino "cultural dancers" were deported. All security personnel in the Ministry of the Interior—including police and traffic wardens—were empowered to enforce the restrictions. Since Ramadan, new taxes have been imposed on luxury items. Although these measures may save only small amounts of foreign exchange, they help burnish the regime's Islamic credentials, particularly among Iraq's majority Shia community, which comprises about 75 percent of the armed forces. []

Ramadan probably will soon intensify efforts to cut spending. Ramadan orchestrated the steep spending cuts in 1982-83, and he is expected to apply the same determination to the austerity measures needed this year. []

Civilian Imports Are Being Slashed

The Iraqi economy is heavily dependent on imports, and large cuts will severely curtail economic activity and the availability of goods. Just to maintain recent import levels of military goods and food, Iraq would have to use nearly all of its current monthly oil revenues and financial aid from Saudi Arabia and Kuwait. According to the US Embassy, Ramadan has promised to cut civilian imports by 65 percent. The full weight will fall on remaining development projects, imported inputs for industry, and nonfood consumer items. []

Baghdad has banned imports of luxury goods and semifinished products. In addition, Iraq's private sector has not received any allocations of foreign exchange for imports this year, according to the Embassy. Although the private sector represents a small fraction of total imports, it is heavily involved in the domestic manufacture of consumer goods. []

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Baghdad's difficult financial position is causing foreign suppliers to reduce ties to Iraq and is increasing the threat of shortages of even basic necessities. According to the US Embassy, spot shortages of formerly available imported goods began to appear in Baghdad late this spring. For example, some Japanese companies—Iraq's leading source of imports in 1985—have suspended shipments to Baghdad. []

[] four of Iraq's key pharmaceutical suppliers have reached their credit limits, and one US supplier will not make additional shipments until Baghdad makes overdue payments. Some European companies also have halted shipments to Iraq because of payment arrearages:

- Several Austrian companies have wired their agents in Turkey to have their trucks stopped and sent back to Austria.
- Several West German firms have sought to repossess goods that were shipped to Iraq but never paid for. []

Government Austerity Measures

New austerity policies are likely to include subsidy reductions, tax increases, and cutbacks in development expenditures that will give short shrift to consumers. Basic services probably will deteriorate as development projects take a backseat to more pressing needs. Several water supply, sewerage, and transportation projects already have been frozen. Although Baghdad is concentrating spending on the war and basic items like food, prices of many goods, including food, are rising rapidly. To assure equitable distribution, Iraq's rationing program, previously limited to food staples, is being expanded. []

[] ration cards are being distributed for such consumer goods as tea and sugar. []

Special groups within Iraqi society have begun to lose some of their perquisites. Financial benefits given to government workers, military personnel, and families of war dead are being reduced. The US Embassy reports that Ramadan has ordered that cars previously given to senior government officials will now be sold to them instead. Ramadan is also stopping the widespread practice of using government buses to take workers to and from work at government expense. Even President Saddam seems to be

curtailing his customary largess by telling petitioners there is no more money for him to hand out. []

Financial incentives to military officers—a standard practice in the past to reward loyalists and build up morale—also are diminishing. []

[] Saddam recently refused to give cars, large cash payments, and plots of land to a group of former officers who were returning to military service. The officers, who were being recruited last May to train student draftees, were expecting the perquisites and were disappointed when they were withdrawn. Many former officers also balked at the low salaries offered—about \$500 to \$800 per month. In addition, benefits to families of war dead also are being curtailed. At the beginning of the war, the family of an Iraqi killed in battle received a car, 3,000 Iraqi dinars, and a plot of land.

[] few "martyr" families are receiving cars, and most are being told they will get one "after the war."

Outlook

High prices, shortages, and reduced government benefits over the coming months are likely to be accompanied by heightened military activity. President Saddam's recent open letter to Iran calling for peace was aimed, in part, at preparing Iraqis for the next major Iranian offensive and high Iraqi casualties. This is part of a government drive to encourage Iraqis to have a more realistic expectation of future sacrifices stemming from the war and low oil prices. []

An increase in Saudi and Kuwaiti aid for the rest of the year at best would only ease the economic burdens on the Iraqi populace. Last month First Deputy Prime Minister Ramadan toured the Arab Gulf states, seeking large cash infusions. Although we have no evidence of specific deals, the US Embassy reports that Ramadan obtained promises of additional aid. Most of any new aid, however, probably will be devoted to the war effort, limiting benefits to the civilian population. []

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Iraq's New Mobilization [REDACTED]

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Iraq recently began calling up at least 200,000 men, probably because it is concerned about improved Iranian military capabilities and believes that the next Iranian offensive could decide the war. The Iraqis presumably believe that the increased manpower will strengthen their defensive lines sufficiently to halt the Iranians and keep them from occupying more Iraqi territory. Baghdad's defense-oriented strategy and the restrictions it places on its commanders have prevented it, however, from using its forces effectively. We believe that bolstering the Army with new soldiers—largely untrained men who may become nothing more than cannon fodder—will not compensate for poor leadership and may eventually help undermine support for the regime. [REDACTED]

Manpower Shortage Reflects Defensive Strategy

Iraq has sufficient manpower at the front to man defensive positions and even to launch offensive operations. [REDACTED] most frontline units are fully manned. Moreover, in offensive operations this past spring, Iraqi units generally did not require additional troops. With over 750,000 soldiers, Iraq's Army compares favorably in size with the 600,000 to 1 million men fighting for Iran. [REDACTED]

Baghdad, however, has dispersed its units to defend fairly static positions along most of its 1,200-kilometer border and has limited manpower at any given point on the border to counter Iranian offensives, at least in their initial stages. This problem has been worsened by restrictions on the freedom of Iraqi commanders to maneuver their forces. Saddam maintains tight control over even tactical matters and is reluctant to allow his officers to launch attacks to break up Iranian preparations. The Iranians, on the other hand, can concentrate their forces in one area before an attack, giving them local superiority. Iraq must then redeploy troops from other regions or tap its reserve forces quickly to counter an offensive. [REDACTED]

Inadequate Reserves

Iraq's loss of Al Faw in February highlighted to Baghdad the inadequacy of its reserve forces as well as the importance of strengthening them to support the current defensive strategy. These units are needed to respond quickly and with sufficient force to halt Iranian thrusts in more than one area. This was not the case at Al Faw. After regular Army units collapsed, Baghdad called on its small number of reserves—positioned to defend against a possible attack farther north—to contain the Iranians. By the time the Iraqis committed their reserves, however, the Iranians had already established a strong beachhead, and, [REDACTED] the reserve units suffered heavy casualties in counterattacks. Baghdad most likely concluded that more Iranian attacks like the one at Al Faw would be disastrous if Iraq could not increase the number of reserve units near the front. [REDACTED]

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Baghdad probably is also concerned about the military's ability to continue to repel Iranian attacks over the long term. According to UN demographic estimates, Iran had almost a three-to-one advantage over Iraq in military age males in 1985, and it probably will retain that superiority for at least the next five years. Moreover, Iraq cannot easily replace experienced soldiers lost in battle. [REDACTED]

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Expanding Its Manpower Pool

Iraq has made a determined effort since its loss of Al Faw to bolster military manpower in existing units and to form new units. Barring a large number of desertions, the regime may be able to expand its ground forces by at least 200,000 men. This increase means that about 1 million Iraqis—more than 25 percent of the country's military-age males—will be under arms. [REDACTED]

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New Iraqi soldiers at a training camp [redacted]



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The most significant aspect of Iraq's new mobilization appears to be the emphasis that Baghdad is placing on increasing its reserve forces. According to Saddam, the goal of Iraq's new manpower policy is to create a pool of trained soldiers who can be quickly sent to the front when needed. The regime has more than doubled the number of Republican Guard brigades—Iraq's elite "strategic reserve forces"—since February, adding some 12,000 men. [redacted]

reservists up to 45 years old. This effort probably will facilitate efforts to reactivate men with special skills needed at the front. [redacted]

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Baghdad has taken the unprecedented move of calling up some 70,000 university students and teachers for regular Army training. Traditionally, both groups have been exempt from or could defer military duty. [redacted] the students will be assigned to regular Army units this fall for at least three months rather than returned immediately after training to their universities as reservists. [redacted]

Efforts To Replace Losses and Strengthen the Army

The regime will use many reservists and draftees to shore up regular Army units depleted by this year's casualties and to reinforce units in areas where it expects Iran to attack. [redacted] reservists born in 1945 and 1946—some 80,000 men—already have joined Army units this year, and another 120,000 are eligible for mobilization. [redacted] the regime also has more than doubled the number of Kurdish militia units in northern Iraq to 112 since February. Baghdad probably hopes these new units will bolster defenses in the north. [redacted]

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The regime is also trying to improve its capability to identify reservists on inactive duty. According to US Embassy sources in Baghdad, the Iraqi military has ordered all men between the ages of 40 and 44 with prior military service to report for registration. The regime also is trying to computerize information on

¹ Iraq probably has lost at least 30,000 men in the last six months—about the same number of casualties for all of 1985. [redacted]

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Table 1
Iran-Iraq: Military-Age
Population, 1985

Thousand persons

Male Population	Iraq	Iran
Total	3,538	10,275
15-19	838	2,406
20-24	692	2,043
25-29	570	1,712
30-34	472	1,455
35-39	389	1,128
40-44	319	848
45-49	258	683

[redacted]

The regime is also trying to strengthen its Ba‘thist militia, the Popular Army. [redacted]
[redacted] the Popular Army is trying to conscript almost every male up to 54 not serving in the regular military. Recruiters are becoming more aggressive, even checking men on the streets, [redacted]

[redacted]
[redacted] the Popular Army is also forming new units, designated “special mission battalions” or “special tasks” units. [redacted]

Problems With Implementing Manpower Changes
Despite the buildup of its forces, Baghdad probably remains undecided about how to organize them.
[redacted] the regime in May wanted to form an 8th Corps but failed to recruit enough skilled retired officers to staff it. Undeterred by this poor response, Baghdad plans to form a “special task corps” to replace another corps at the front or to serve as a strategic reserve unit.
[redacted]

The regime also will have to adjust its manpower planning because of difficulties encountered in training and integrating such a large number of new soldiers. [redacted] for

example, that in July some students were deserting because of inadequate organizational and logistic preparations at training camps. The Army’s shortage of skilled training officers will frustrate efforts to assign all university students to regular Army units by the end of the summer. [redacted]

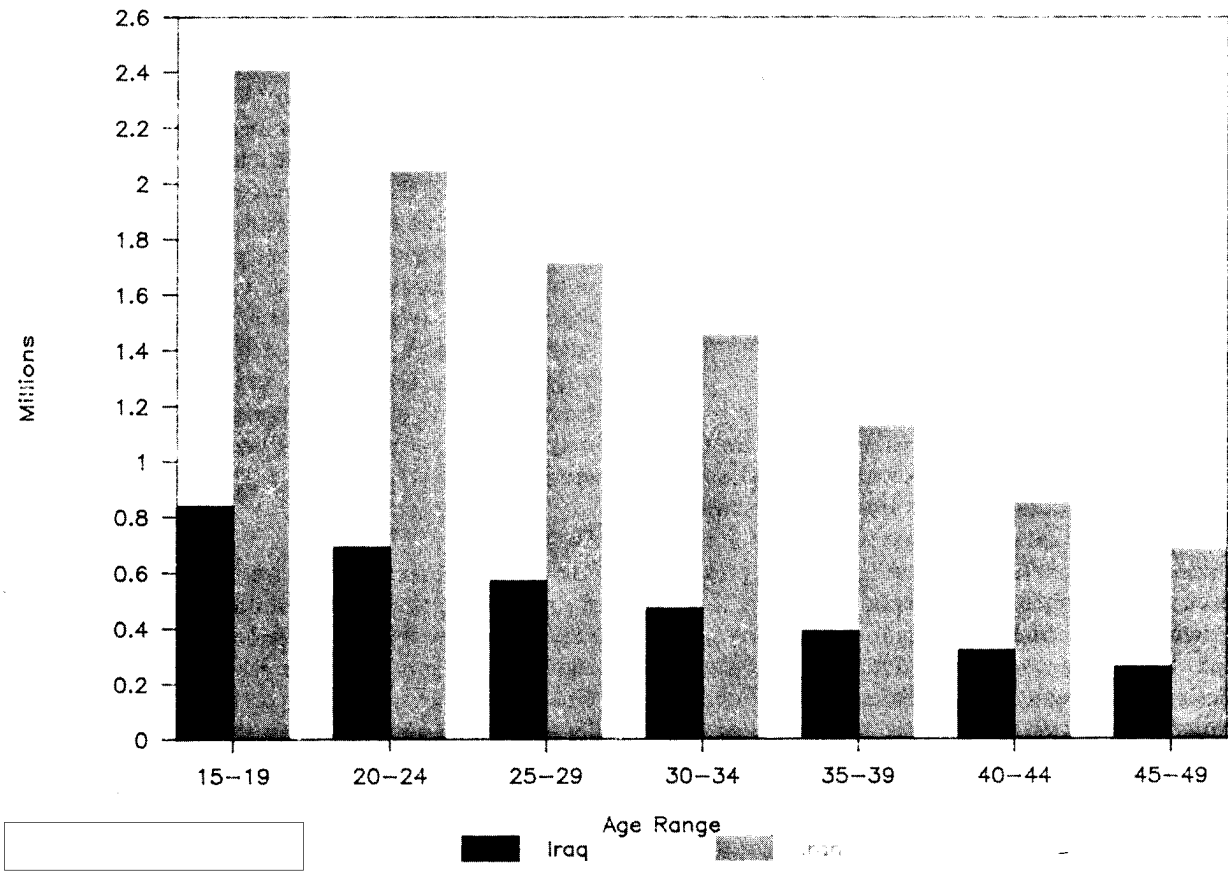
Adverse Popular Reaction to Manpower Measures
Baghdad’s new mobilization measures are likely to further lower civilian morale and weaken support for the regime. US Embassy sources in Baghdad report that the draftees include technicians and merchants important to the civilian economy. Moreover, in the past, most students and those with family ties to the regime could avoid service or at least frontline duty. Although eliminating many deferments may assuage disgruntlement among Shia and other lower-class Iraqis unable to obtain exemptions, the new draftees may be more vocal in their protests against military service. [redacted]

Outlook
The new mobilization measures will not compensate for poor leadership. Baghdad does not appear to be planning to use its new soldiers more aggressively or effectively than it has in the past. The Republican Guard probably will remain a “strategic reserve” force, but its reputation as an elite unit already is suffering from its increased size, inadequate training of new recruits, and poor performance at Al Faw and Mehran. Other draftees will be used to increase the strength of defensive positions at the front, but their inadequate training and lack of experience will limit their combat effectiveness. [redacted]

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Iran—Iraq: Military Age Population 1985



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Table 2
Estimated Forces
Newly Mobilized

	Number
Total	200,000
Recalled reservists	80,000
Students and teachers	70,000
Kurdish battalions	29,000
Republican Guards	12,000
Special mission battalions	9,000

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Furthermore, the callup of older reservists, students, and those who previously could avoid service will increase tensions as it brings the cost of the war home to more people, including those from influential families. The Iraqis will bear the increased economic and human costs of the new mobilization grudgingly in the short term. Civilians will be reluctant to maintain the current level of mobilization indefinitely. Moreover, the regime probably cannot expand mobilization much more without seriously undermining its support, particularly if the public sees no gains on the battlefield.

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Iraq: Removal of Ba'thist Hardliner Na'im Haddad

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The recent dismissal of Na'im Haddad, a veteran Ba'thist, from the leadership in Iraq represents a further erosion in the influence of party ideologues. Haddad had been increasingly in disfavor since Iraq resumed diplomatic relations with the United States in 1985, and he has been replaced by former Foreign Minister Sa'dun Hammadi, who is considered more moderate.

Haddad's Removal

In late July, President Saddam Husayn announced the removal of Na'im Haddad from the Revolutionary Command Council (RCC), Iraq's highest governing body. As is usual in Iraq's secretive society, no explanation was given, but the US Embassy has reported rumors that Haddad angered Saddam by speaking out on issues the President did not want discussed in public. Saddam and Haddad occupied widely divergent positions on the Ba'thist political spectrum. The President is viewed as a practical politician who rejects ideological extremism, while Haddad was a leader of the party's hardline ideological faction.

Hardline Ba'thism

Doctrinaire Ba'thists, such as Haddad, oppose any accommodation with the West and call for the destruction of the state of Israel. Within the party, they oppose increases in presidential power—particularly marked under Saddam's rule—at the expense of the party leaders. In 1979 Saddam executed 21 Ba'thists who were considered hardliners and who sought to block his assumption of presidential rule. In 1982 Saddam conducted another purge of hardliners whom he claimed were plotting his overthrow. Haddad survived the 1982 purge, but, according to the US Interests Section in Baghdad, he barely retained his seat on the RCC.

The RCC's decision in 1985 to resume diplomatic relations with the United States isolated Haddad within the leadership. He went along, but grudgingly, according to US diplomats. Thereafter, according to

the Embassy, Haddad's influence within the regime was considerably curtailed; Saddam entrusted him with few important assignments. His most important job was director of the Popular Progressive National Front, a practically defunct coalition of Iraqi political parties formed by the regime to foster the appearance of public support.

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Gains by More Moderate Ba'thists

Within days after Haddad's removal, the RCC underscored the weakness of the hardliners by appointing moderate Ba'thist Sa'dun Hammadi to take his place. Hammadi, an expert in foreign affairs, strongly supports improved relations with the West. He has numerous contacts in Washington, gained while serving as Iraq's Foreign Minister in the early 1980s. According to the US Embassy, Hammadi frequently clashed with the Ba'thist hardliners during his tenure as Foreign Minister.

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Hammadi's appointment continues the practice, begun under Saddam, of elevating technocrats to leadership posts in the party and government. Hammadi is an expert in petroleum and agricultural matters. He received his doctorate in agricultural economics from the University of Wisconsin in the 1950s.

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Haddad's removal—and his replacement by Hammadi—probably bodes well for Western, and particularly US, interests in Iraq. We expect that Hammadi will be used to maintain contacts with US policymakers and to seek improved bilateral relations with Washington.

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Letter From Tehran

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The following article attempts to provide a view of life in present-day Iran as seen by a Western-educated technocrat. It is presented in the form of a letter from an Iranian engineer in his midforties to a friend, also an engineer, who left the country after the revolution and now resides in France. The friend in Europe has heard about the government's encouraging the return of expatriate technocrats and wants to know what to expect if he returns.

Dear Farhang,

I enjoyed your letter and hope you are well. We must write more often. I am glad you were able to see my daughter on her way back to school. Now to try to answer your questions. The new campaign you mentioned to get experts like yourself to come back is already running into opposition. It is the same old conflict that has divided this regime for several years. The smart ones in the government have recognized for a long time that they must reverse the brain drain. I have heard that as many as 500,000 have fled. Others keep saying that allowing emigres back means selling out the revolution. They are afraid of what they call dangerous Western influences. These opponents are led by a cleric named Khoiniha, the State Prosecutor, who says that if the exiles return, they will "suck the blood and wealth" of patriotic Iranians and undermine the country's stability. I hope you get the message. A lot of powerful people here do not want our type around.

Despite what you may hear in Europe, the few who have returned have not been welcomed with open arms. Khoiniha has been issuing monthly broadsides attacking businessmen and landowners who returned and regained confiscated property through the courts. Friends tell me that objections by Khoiniha and his crowd also have stalled efforts to sell off some nationalized businesses.

The factions in the government also are at it over the economy. Conservatives and their bazaar

supporters blame government meddling in the private sector for our problems. Radicals say giving the merchants freer rein would just allow them to gouge the poor even more than they are doing already. The charges and countercharges have been extremely hostile.

Khomeini seems to keep the extreme radicals, like Khoiniha, under some control, but I am worried about what will happen when the old man dies. The radicals claim we are a contaminating influence—"Westoxified" is what one paper calls us—and they want to eradicate our ideas and values. These radicals have shown they will use force to put down opposition and stamp out "corrupting" influences. Many of them have private militias, and they can call on gangs of street toughs to bash heads.

You asked why the regime is trying to get experts to return now, when the economy is in such bad shape and the government is cutting its budget. I think there are three reasons. First, although the government is cutting back on development projects, it still needs experts for essential industries such as oil, power, and steel. Second, the regime wants to make Iran self-sufficient in industry and agriculture and needs people who can develop the necessary technology here. Third, the regime wants to prepare for the day when oil prices go back up and development can be resumed.

Now, a little of what has happened to me in the last few years. You know I was fired from my government job about a year after the revolution. One of the committees they set up to review government workers' "revolutionary credentials" found me to be a sympathizer of the Shah and not a good Muslim. The part about not being a good Muslim is true, but, as you know, I wanted the Shah out as much as anyone. The whole thing was a farce. My accusers were a couple of newcomers to my department who got their

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jobs because their uncle was important in the revolution. They did not even have engineering degrees. They had just taken a few courses at one of the provincial universities. They were extremely devout though, never forgetting to say their prayers and always lecturing me for not stopping work to pray with them.

Well, a lot of our friends were dismissed about the same time, and several of us decided to start our own engineering firm. Ironically, our main business has been from government contracts. The government has discovered that religious faith and revolutionary zeal do not keep steel mills and electric generators going. My firm was doing well until a few months ago—1983 and 1984 were very good years. Then the government's budget reductions and the slumping economy really hit us hard. Several big contracts with the government have been canceled, and we have had to put about a third of our people on part-time and may even have to lay off workers.

Life here has gotten a lot tougher in the last few years. Inflation has gone out of sight. You have probably heard about the rationing system. It has been in effect since the war started and covers food and a range of other things, like cars and rugs. Having a ration coupon does not mean you will get what you want, though. Lately, all the stores have been running out of eggs and cheese. Most things are available on the black market, but the prices are often 10 times higher. Meat is particularly scarce and is now a great luxury. I had to postpone buying a new rug for the dining room this year—perhaps they are so expensive because the government recently sent Zimbabwe hundreds of thousands of dollars worth of carpets.

You would not believe Tehran. The population has doubled since the revolution—I think it has reached 9 million. The mullahs do not have any idea how to deal with the situation. Water and sewer services have gotten very bad—we drink bottled water exclusively now. Air pollution is much worse than before, and my doctor friends say it is starting to be a major health hazard. But they remind me that it is better than going to the front. Power outages occur at least once or twice a week, sometimes for several

hours. Traffic is a nightmare. The newspapers claim that about 1,400 people have died from traffic accidents in Tehran already this year.

Our social life here is very limited—not like the old days. The mullahs have made a big effort to stamp out “corrupt” Western influences and make everybody behave according to their “Islamic” standards. They go through cycles in which they crack down and then ease up. We are in a crackdown phase right now. In the last couple of months they have closed scores of boutiques in Tehran and other cities where lingerie and other “decadent” Western items were sold. They have also shut down all the video-game arcades—which had been the rage. People have been afraid to protest against the war, but I will wager that losing Pac-Man may bring a few into the streets. The newspapers say that some 250 people have been arrested for appearing in public in “un-Islamic” attire, and the cleric in charge has asked hotels and restaurants not to admit women who dress improperly. Some Majles members are even proposing reeducation camps for women who fail to observe proper Islamic dress.

One has to be careful even in private. There are “revolutionary committees” in every neighborhood, which, among other things, act as local vice squads. Many are thugs from South Tehran who particularly enjoy coming into our neighborhood and harassing people. They hate and envy us. They will break into private parties to check for drinking or Western music unless you pay them off in advance. By the way, some US singer called Madonna is now popular among teenagers here. Some of these revolutionary committees have grown rich by confiscating “corrupt” Western possessions, such as stereos, and reselling them. If you flout the rules too blatantly—say you are caught on the street with alcohol on your breath—you can pay with lashes or a beating. Several people were stoned to death recently for committing adultery. One poor fellow managed to escape from the stoning pit. The judge (I use that term loosely) ruled that, according to Islamic law, the fellow did not have to return to the pit, because, though he had confessed to the crime, there were no witnesses. Figure that one out.

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The hypocrisy of the mullahs is what galls me. They will not tolerate "corrupt" Western ways but do nothing to stop government corruption. You cannot even get a marriage license without greasing someone's palm. My firm has a terrible problem ordering parts through the government bureaucracy. To get your order filled promptly you must know who to pay and how much. The clerics are the worst offenders. I could give you a thousand cases. For instance, there is a long waiting list to buy cars, but setting up a bank account in the name of your local mullah can get you to the head of the line.

We have all had to take advantage of the new "system." I do not know if my kids told you that they failed to get into a college here. Their grades were good enough, but now students must pass a second exam that tests their Islamic "credentials." Both my kids failed. But their grades were not quite high enough to get into a good school in Europe. After asking around, I found someone in the Ministry of Education who—for the right price—was willing to turn Cs into Bs and so on. That is how they made it to England.

We are all trying to keep our kids out of this senseless war the mullahs are fighting with Iraq. Some friends have smuggled their children out of the country. For a price, Kurds will take them through the mountains into Turkey. Friends have found doctors willing to certify their sons as ineligible for military service. The going rate is about \$1,500 (dollars, not rials). I already have the name of one if my son gets called up. Some boys have enlisted in the regular Army and the Air Force, which apparently have not seen as much combat as the Revolutionary Guard. Still, a couple of your old neighbors have lost sons. I think one of them was in the same class as your boy.

I am sorry to be so negative, but things have gotten very bad here. This is definitely not our revolution. My friends and I talk constantly in private about how alien we feel here now—and how insecure. If the radicals ever get complete control, I am convinced the executions of those, like us, who are seen as a threat to the revolution will begin again. Your best bet is to bide your time where you are now. After Khomeini dies, it is possible the radical clerics will tear each other to pieces and open the way for more moderate voices. But that seems a long way off.

Sincerely,

H.



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Afghanistan: The Private Sector in a Socialist Economy

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Recent public statements by key Afghan officials have emphasized the role the private sector plays in Afghanistan's nominally state-controlled economy. The rhetoric is a sharp shift from past announcements that concentrated on the achievements of the public sector. We believe the regime's current emphasis on private enterprise is motivated by economic necessity and a desire for popular support and does not represent a slackening of commitment to socialism on the part of the Kabul leadership. The private sector accounts for over 80 percent of Afghanistan's gross domestic product and is an important source of revenue and foreign exchange for the regime. In our opinion, however, the government remains ideologically committed to expanding the role of the public sector and will support private enterprise only so long as it serves regime purposes.

The State's Role in the Economy

The state began to take a more active role in Afghanistan's traditional economy in the late 1950s under the guidance of Mohammad Daoud. As Prime Minister in the 1950s and 1960s, Daoud tried to encourage modernization and the development of Afghanistan's industrial base through the formation of state enterprises in the industrial sector—mainly heavy industries based on minerals and other natural resources.

The state's role in the Afghan economy further expanded after the coup in July 1973 in which Daoud declared himself President of the Afghan Republic. Daoud enunciated a policy emphasizing the role of the state, particularly in developing heavy industries. To promote this policy, the banks were nationalized. With the nationalization of the major commercial bank, Bank-i-Melli, in 1975, a number of private enterprises in which it had a majority share also became part of the public sector. The government also increased its involvement in the economy through takeovers of ailing or abandoned enterprises. The private sector, however, remained active in light industries and handicrafts as well as in retail trade and transportation.

The Marxist Approach

Despite regime claims that it intended to completely socialize the Afghan economy and public emphasis on the virtues of a planned economy, the Marxist regime in Kabul has quietly pursued a policy of developing a mixed economy. Immediately following the Communist coup of April 1978, the Taraki regime nationalized several large enterprises still in private hands and attempted to crack down on the private sector. These actions resulted in strong public protest and a serious drop in economic activity. To reverse these trends, the Karmal regime—installed during the Soviet invasion of December 1979—abandoned a number of the previous government's antiprivate enterprise policies. According to the International Monetary Fund (IMF), the only takeover since April 1978 was a rayon textile factory in 1985, as a result of bankruptcy.

Although the Kabul regime has focused its attention on developing the public sector, it has allowed the private sector to function with relatively little interference, and recently it has publicly advocated an even greater role for private enterprise in the Afghan economy. On 5 July, for example, Afghan Communist Party leader Najibullah addressed a group of private entrepreneurs in Kabul and called on them to "step up their activities in supplying the required goods and in improving the country's economy and the living conditions of the people."

The Role of the Private Sector

At present, the private sector accounts for 82 percent of Afghanistan's gross domestic product, according to government figures. The agricultural sector, which accounts for more than half of the national income, is still largely in private hands, and the regime claims that the private sector accounts for more than half of the country's industrial production. Although most large industrial and mining projects are under state control, a number of light industries and most of the

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handicraft industries, such as carpetweaving, remain in the private sector, according to government figures. Between 75 and 85 percent of domestic retail trade and about 45 percent of foreign trade is carried out by private firms, and the regime estimates that 70 percent of the country's transport vehicles are privately owned and operated.

The private sector also provides the government with much-needed revenue and foreign exchange. The regime relies on taxes collected from businesses in Kabul and on import duties as important sources of revenue, according to press reports.

The government suffers from a shortage of foreign exchange because of chronic payments deficits. It has turned to the money bazaars to supply it with the funds necessary to finance foreign trade, [REDACTED]

[REDACTED] The money bazaars continue to operate with relatively few restrictions under the current regime, according to the president of the Kabul moneychangers union. Moneychangers are free to set daily market exchange rates, which they determine by listening to foreign radiobroadcasts of international currency rates, and to open foreign currency accounts in banks abroad. Most of the union's 110 members have partners in Dubai who provide them with links to Pakistan. In return, the moneychangers supply the government with foreign exchange at a preferential rate. We believe that regime data understate the extent of private-sector economic activity because of widespread bartering, smuggling, and other unofficial economic transactions that are not reported to government sources.

Regime Support for the Private Sector

In a recent address before the Economic Consultative Council (ECC), Afghan Prime Minister Keshtmand announced the regime's plans to adopt a new law on private investment. While giving few specifics, he asserted that it would include measures to stimulate and regulate private enterprise. The regime is particularly interested in attracting private investment in industry and in increasing the use of private vehicles to carry state goods, especially to the provinces.

The government is trying to encourage private investment in industry through various incentives:

- Privately owned factories are exempt from taxes for their first four to six years of operation, according to official Afghan press reports.
- Interest rates on loans extended by state banks for private investment in industry are as low as 6 percent—about half the rate for other borrowers, according to IMF reports.
- An equivalent of \$2.3 million in credit was extended by the state to private industry during 1985, according to regime figures.

The regime's preferential tax and credit policies are probably designed to increase private investment in government-targeted areas.

In addition, Kabul has given prominence to private entrepreneurs and traders on the ECC. The ECC—an economic advisory body under the Council of Ministers—was reconstituted in February to expand the role of private businessmen in the development of economic policy, according to government press reports. The council has no real power; its expansion was probably mainly an attempt to broaden the regime's support. The regime has also encouraged the creation of mixed public and private enterprises with state participation not to exceed 40 percent, according to the IMF.

Kabul's Motives

We believe the Marxist regime's support for private enterprise is motivated by necessity. The regime does not have the ability to centralize the economy or sufficient political control to effectively regulate the private sector. The proposed new private investment law may be an attempt by the regime to establish some control over this sector.

The regime also wants to compensate for reduced Soviet economic aid to Afghanistan. Such aid has been cut from approximately \$703 million in 1980 to \$325 million in 1985, the latest year for which data are available. Furthermore, this aid has been targeted primarily at investment in infrastructure and mineral

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exploration and development. As a result, the regime suffers from a shortage of investment capital for industrial projects necessary for economic development.

Kabul's growing public support for private enterprise may also be an attempt to expand the regime's popularity and enhance its legitimacy. The government has tried to gain cooperation from important economic groups in Afghan society, such as small businessmen and traders. In June, for example, party leader Najibullah announced the regime's support "for private investors and national traders" and claimed it would "provide all necessary facilities in this area." He called on them "to put their capital into circulation for the prosperity of Afghanistan and the construction of a new society."

In recent months, the regime has also tried to gain popular support by portraying its policies as nationalist rather than Communist. Rhetoric in favor of private investment may be an attempt to reinforce this notion.

Outlook

The regime's policies are unlikely to encourage significant private investment in large-scale industries. The poor security conditions as well as fear that the regime will eventually nationalize industries or otherwise crack down on the private sector make such large investments unattractive to private investors. We expect private enterprise to continue to play a major role in sectors such as retail trade, transportation, and handicrafts, where investment costs—and therefore risks—are lower. Smuggling and other unofficial economic activities will also continue to flourish. If the regime consolidated its political control, we believe it would try to manipulate the private sector and eventually eliminate it in favor of a state-run economy.



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India: Split in the Akali Dal

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Three months after Punjab Chief Minister Barnala removed a band of Sikh extremists from the Golden Temple—Sikhdom's holiest shrine—his moderate Akali Dal Party has split and his political future is threatened. The split in the Akali Dal will hinder New Delhi's ability to implement last summer's Punjab accord and provide an opening to extremists eager to exploit dissent among the moderates. Meanwhile, growing numbers of Hindus are fleeing Punjab for the safety of neighboring Haryana, and some Sikhs are moving to Punjab because of Hindu retaliation against them elsewhere in India.

concern but has failed to appease Thora and other Akali dissidents.

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The split comes amid intensified violence by Sikh extremists over the past several weeks. The killing in Punjab of 15 Hindus by extremists on 25 July and the assassination of a retired Indian Army chief of staff have heightened communal tensions throughout Punjab and in New Delhi. According to Embassy contacts, Hindus have stepped up their sales of urban properties in Punjab, while some Sikhs across northern India have begun to move to Punjab as a result of Hindu retaliation. The Sikh extremists almost certainly are aiming at expelling Hindus from Punjab and gathering in Sikhs from across India to further their goal of a Sikh state.

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The Setting

Dissident members of the moderate Sikh Akali Dal Party have launched a drive for control of Punjab's state government. The US Embassy in New Delhi reports that the dissidents last month formally split with the ruling Akali Dal government of Punjab Chief Minister S. Singh Barnala, established their own True Akali Dal Party, expelled Barnala as party head, and named a former Punjab chief minister, P. S. Badal, to replace him. As a result, Barnala now controls only 46 rather than 73 members in the 117-member state assembly. Although he still has control of the assembly's largest faction, he is now even more dependent on the support of 38 opposition members, mostly from Rajiv Gandhi's Congress Party, to govern.

The dissidents' moves come at a bad time for Barnala. Blame for the failure of three commissions appointed by New Delhi to implement key provisions of last summer's Punjab accord has fallen largely on Barnala. Editorials in the Indian press accuse Barnala and his Akali Dal of blocking implementation of the accord, and the opposition in Parliament is calling on Gandhi to dismiss him.

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Meanwhile, Barnala has had to appease Gandhi by declaring a full-scale "war against terrorism." This crackdown has resulted in more killings and arrests of Sikh youth, fueling Sikh dissident charges that Barnala is collaborating with New Delhi against Sikhs.

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Barnala's decision last April to remove a group of Sikh extremists from the Golden Temple and arrest an additional 300 Sikhs caused the fissure in the Akali Dal. According to the US Embassy, G. S. Thora—a former head of the powerful Sikh Temple Management Committee, which administers the Golden Temple, and a longstanding opportunist in Punjabi politics—seized on Barnala's actions to launch the split in the 65-year-old party. The dissidents accuse Barnala of defiling the Golden Temple at New Delhi's behest. Barnala's decision to atone for the police action in the temple by accepting a Sikh religious punishment has defused popular Sikh

Akali Dissident Strategy

The dissidents are attempting to gain control of key centers of political power in Punjab. The president of the breakaway Akali Dal, P. S. Badal, has called for new elections to the Sikh Temple Management Committee. Badal is probably seeking to get a foothold with newly elected members who would control the Golden Temple's Akal Takht—the seat of

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spiritual authority for Sikhs. []

[] control of the Akal Takht is a prerequisite for political power in Punjab. The Embassy reports that the dissidents have tried to strengthen their popular base by holding a series of district-level conventions throughout Punjab to attack Barnala and promote their own leaders. []

The dissidents have also made overtures to Sikh militant groups. According to press reports, Badal and two other dissident leaders attended a Sikh memorial service last month for two militants, sponsored by the Damdami Taksal and the All India Sikh Student Federation—Sikh militant organizations. Badal is also promising to “visit Sikhs in jail and do everything possible to stop the massacre of Sikh youth” in an apparent bid to put distance between his breakaway party and Barnala’s security crackdown and win militant support. The militants remain suspicious, however, of Badal’s motives and are pressing dissident Akalis to resign from the state assembly to prove their intentions. []

The dissidents are also trying to seize control of the state assembly by attacking Barnala’s collaboration with New Delhi and opposing the remnants of last summer’s accord. According to press reports, the Akali dissidents have rejected all findings of New Delhi’s three commissions charged with resolving territorial issues between the states of Punjab and Haryana and are calling instead for implementation of a more radical 1973 Sikh resolution on autonomy. In response to Barnala’s crackdown on the militants and Gandhi’s strong endorsement of tighter security in Punjab, dissident leaders have accused Barnala of executing Sikh youth and desecrating the Sikh religion at the behest of New Delhi. []

So far, Barnala has managed to retain his tenuous grip on the state government and even score a symbolic victory over the dissidents. Last month an Akali candidate of the Barnala camp defeated a rival backed by the dissidents in an election to the upper house of Parliament. The dissidents’ defeat suggests their militant rhetoric and anti-Barnala posture have failed to win significant popular support in Punjab. []

Impact on Barnala

The Akali split is beginning to erode Barnala’s moderate stance on Sikh autonomy. Barnala has reneged on his promise to transfer 28,000 hectares—including some Sikh farmlands and water resources—to neighboring Haryana in fulfillment of the Punjab accord. [] Barnala would face an immediate no-confidence vote in the state assembly and defections from hardline members of his Cabinet if he made the transfer. Barnala’s reluctance to risk the support of his constituency probably reflects his need to counter the dissidents’ increasingly tough rhetoric with his own hard line on the issue. []

Barnala’s maneuvering, however, is limited by New Delhi. Prime Minister Gandhi has invested heavily in Barnala as a guarantor of the Punjab accord and is probably not prepared to let him scuttle it for the sake of appeasing the dissidents. Instead, Gandhi is likely to continue pressing Barnala to cede the 28,000 hectares to Haryana. Barnala will remain limited by Gandhi’s constitutional power to dismiss him at any time and impose direct rule from New Delhi. []

[] Barnala is likely to delay reaching a decision on the transfer in hopes of winning concessions from New Delhi. A delay will also help him avoid a confrontation with the dissidents. []

The crackdown on terrorism across Punjab is buying time for Barnala. It has given him an excuse to delay action on the transfer and an opportunity to call for unity against foreign-backed terrorism. New Delhi’s strong backing for Barnala’s security measures will reinforce congressional support for Barnala in the state assembly and could prevent further defections to the dissidents. The temporary arrest and imprisonment of Badal and Thora in New Delhi underscore New Delhi’s commitment to the crackdown but are unlikely to have much effect on the dissidents’ challenge to Barnala. []

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The dissidents' increasingly hostile posture toward New Delhi has limited Barnala's ability to make concessions. Even if Barnala were to rebuke the dissidents and follow through on the transfer of Punjab territory to Haryana, his actions would probably further weaken his hold on the Akali Dal and increase prospects for New Delhi's direct rule in Punjab. [REDACTED]

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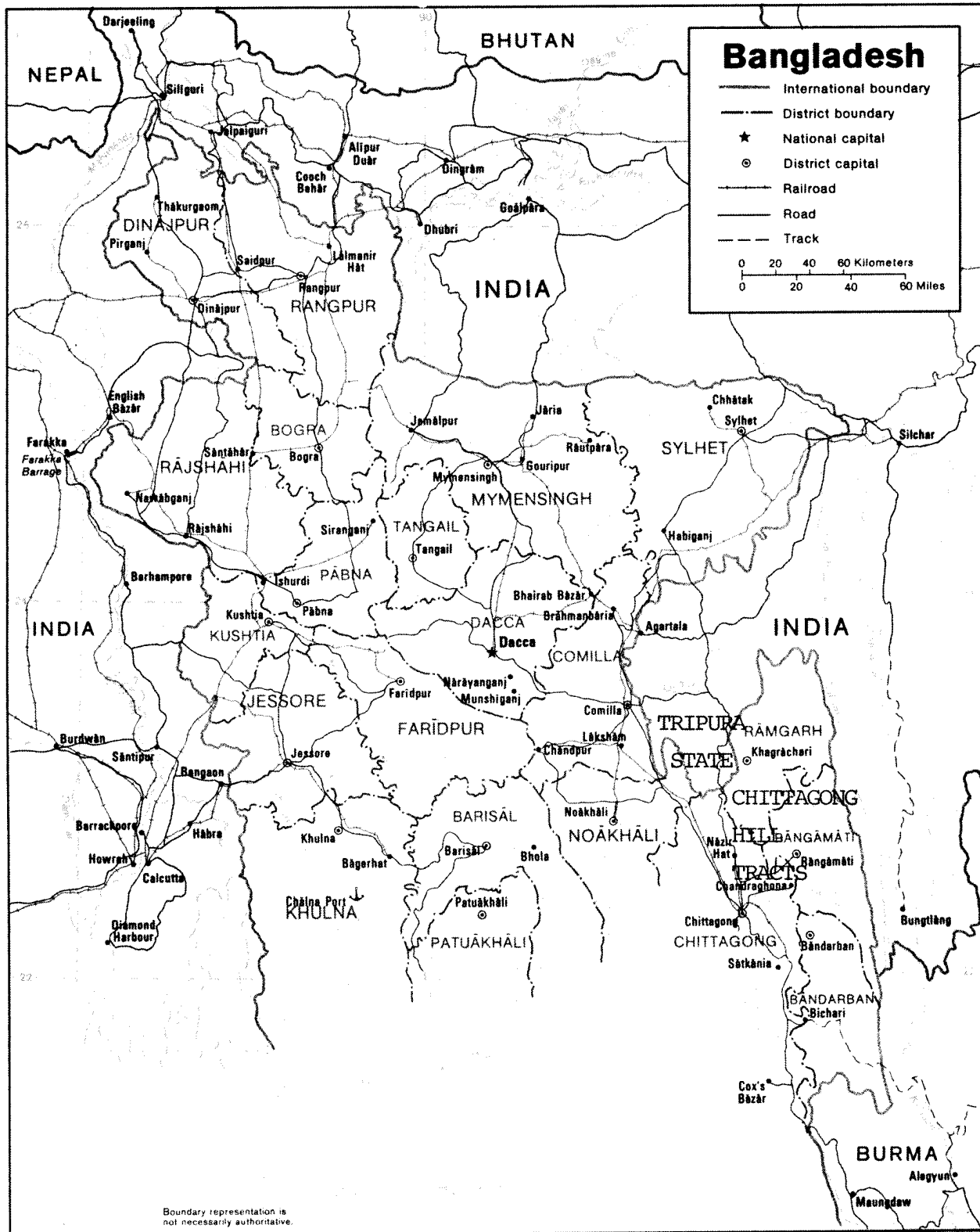
The dissidents are unlikely to develop enough strength to replace Barnala any time soon. Press reports of the blatant political opportunism of the dissidents are likely to cast doubts on their motives and cost them popular Sikh support. Even if New Delhi imposed its rule for several months and called new elections in Punjab, the dissidents probably could not capture control of the state government without a broader political base. [REDACTED]

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Bangladesh: Tribal Unrest in the Chittagong Hills

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An upsurge in fighting this spring between settlers from other parts of Bangladesh and indigenous tribals in the Chittagong Hill Tracts forced India to take in some 24,000 refugees and put this long-festering issue on the agenda of last month's talks between President Ershad and Indian Prime Minister Gandhi. Gandhi declared that India is not supporting the tribals. Even if the Indian Government is not supporting them, we believe the Tripura state government is, and Gandhi is unlikely to crack down on state officials. Domestically, the unrest poses little political danger to President Ershad because it is remote from main population centers, even though it has provided grist for opposition attacks on the government.



Hills of the Chittagong Tracts

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Roots of Conflict

Ethnic and religious differences separate the Chittagong Hill tribals from other Bangladeshis. Unlike the Muslim, Indo-European Bangladeshis, the tribals are predominantly Buddhist and speak Tibetan dialects. According to US Embassy estimates, some 400,000 tribals inhabit the 12,950-square-kilometer hill tracts in southeastern Bangladesh along the Indian and Burmese borders, where they coexist uneasily with about 200,000 newly arrived Bangladeshi settlers.

British colonial rulers granted a special status to the Chittagong tribals that allowed limited self-rule and prevented outsiders from settling in the area. This protection was removed in 1963 when the area was under Pakistani rule, starting the process of tribal disaffection from central authority. The US Embassy in Dhaka reports that this disaffection grew as development projects—such as the Kaptai Dam, built in 1962—dislocated thousands of tribals, and bans on outside homesteaders were lifted.

During the Indo-Pakistani war of 1971, which led to the creation of Bangladesh, the Chittagong Hill Tracts were used as a sanctuary by Pakistani loyalists. The new Bangladesh Government in Dhaka considered the tribals to be subversive because of their

alleged support for Pakistan, according to academic studies. At the same time, Dhaka promoted the transfer of Bangladeshis from the crowded lowlands to the sparsely populated hill tracts to relieve overcrowding.

The Tribals Take Up Arms

In 1972, Chittagong Hill tribals formed the Shanti Bahini (peace force), a guerrilla force dedicated to driving out Bangladeshi settlers and achieving self-determination for the hill people. Manabendra Narayan Larma, a former member of the Bangladesh Parliament, was leader of the Shanti Bahini as well as spokesman for the tribals until his death at the hands of tribal dissidents in 1983. The guerrillas draw most of their recruits from the Chakma tribal group, according to the US Embassy in Dhaka. The Embassy estimates that the Shanti Bahini numbers between 2,000 and 5,000 regulars, with perhaps 10,000 to 15,000 in reserve forces.

Most of the Shanti Bahini's tactics consist of hit-and-run attacks with hand weapons on isolated Bengali settlements.

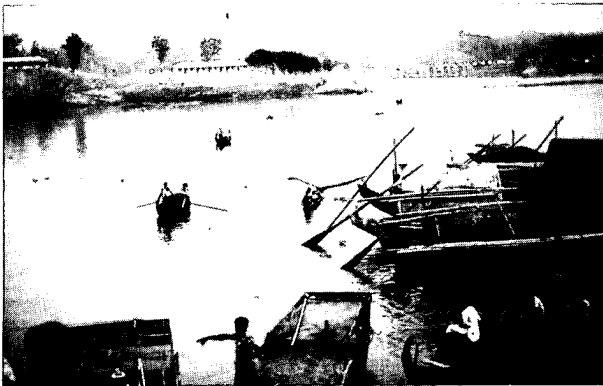
operate in groups of 30 to 40 men who loot hill tract villages and kill the inhabitants with machetes and lathis (long bamboo staves).

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River port in the hill tracts [redacted]

The rebels also engage in extortion and kidnappings to finance their activities, according to the US Embassy in Dhaka. In 1984, for example, the guerrillas kidnaped three technicians from the Dutch Shell Petroleum Development Company who were exploring for oil in the hill tracts. According to press reports, the three were freed after the company paid a \$1 million ransom to the Shanti Bahini. Dutch Shell has announced it will resume its oil exploration in the area.

Dhaka's Response

The Bangladesh Government has responded to the Chittagong Hills insurgency with a mixture of conciliation and violent reprisals. In 1983, after several attempts at negotiations with the rebels failed, Dhaka offered an amnesty to the rebels in return for their laying down arms and surrendering to the government. This offer was repeated in 1985 and again this year. Although Dhaka usually asserts success—it claimed 3,500 guerrillas surrendered during the 1985 amnesty—we believe these amnesties have produced meager results. Dhaka also held formal talks with the Shanti Bahini in October 1985, but press reports say the government halted the talks in December and sped up settlement plans for the hill tracts.

The US Embassy reports that some 10,000 to 15,000 regular Army troops are stationed in the hill tracts and have been conducting operations against tribal rebels since 1976. Although details of these operations are not reported in the government-influenced



Karnaphuli Reservoir. Located nearby is Kaptai Dam, which displaced about 100,000 tribals during its construction [redacted]

Bangladesh press, spokesmen for the tribals have accused the Army of massacring hundreds of tribals, including women and children. The US Embassy relates one such uncorroborated account from 1980 when the Army was accused of killing 200 to 300 tribals in retaliation for alleged attacks on Army units.

Increased Tribal Attacks in 1986

US diplomatic and press accounts indicate an increase in tribal attacks and Bangladeshi reprisals in the Chittagong area last spring. Government officials were quoted in the Western press as saying that 130 Bengali settlers were killed and almost 250 wounded in Shanti Bahini attacks in April and May, the worst outbreak of fighting since July 1984 when 200 settlers were killed. In addition to looting and burning villages, the guerrillas also kidnaped 30 settlers, according to the press accounts. The violence tapered down after Dhaka declared another one-month amnesty for tribal rebels on 24 May, although there were several attacks in July and August reported in the press. Moreover, the US Embassy in Dhaka reports that there have been several retaliatory attacks against tribals by Bengali settlers.

A variety of factors probably caused this upsurge in fighting. A senior Army officer told the [redacted] went on the offensive because the start of the rainy season made

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pursuit of the rebels more difficult and the guerrillas were using the attacks to train new recruits. Another officer told US Embassy officials that the Shanti Bahini timed its attacks to coincide with Bangladesh's parliamentary election in May.

The recent fighting has provided an issue for opposition parties seeking to embarrass President Ershad's martial law government. Sheikh Hasina, leader of the opposition Awami League, called on the government to end the "repression" of tribal activists. A government spokesman retorted by rhetorically asking if Hasina was advocating tribal secession from Bangladesh. The tribal fighting issue has also been raised in the new Parliament, according to the press.

Tribal Issue Hurts Relations With India

New Delhi claims that the recent spate of fighting has created a new influx of refugees from the Chittagong area to India's Tripura state. The Indian press recently quoted government sources' estimates that 24,000 refugees, mostly Chakma tribals, are seeking shelter in Tripura. The US Consulate in Calcutta reports that the Tripura state government is asking New Delhi for \$5 million to run camps for the refugees. New Delhi has publicly requested that Dhaka take back the refugees, and the Bangladeshis say they will take back any refugees who can prove their Bangladesh citizenship.

Privately, however, Bangladesh accuses India of providing shelter, arms, and training to the Shanti Bahini rebels, [REDACTED]

[REDACTED] A senior Bangladesh Army general told the attache that the Communist state government of Tripura assists the rebels in purchasing weapons and that they are also aided by India's border guards. Bangladesh and Indian border forces met in May to ease tensions caused by the fighting, according to press reports, but the results have been inconclusive.

The US Embassies in New Delhi and Dhaka say that the tribal unrest and resulting refugee problems were discussed during President Ershad's state visit to New Delhi in July. US Embassy sources in Dhaka report that Gandhi admitted to Ershad that some low-level support is extended to the Shanti Bahini by the Tripura state government. Gandhi, however, strongly

urged Ershad to halt the flow of tribal refugees into India, according to the US Embassy in New Delhi.

Outlook

Unrest and violence in the Chittagong Hill Tracts will almost certainly continue in the near term as the tribals seek to preserve their way of life against the encroaching Bengalis. We expect more retaliatory attacks by the Army and the settlers on the tribals, thus increasing the refugee flow into India.

The opposition will use the Chittagong Hills issue to embarrass the government, but we believe this will be little more than a nuisance to President Ershad. The opposition parties are weak and fragmented, the hill tracts are remote from major population centers, and the tribal rebels do not have the resources to spread the violence beyond the Chittagong area.

Both the central and state governments in India will probably continue to provide limited assistance to the Shanti Bahini. New Delhi probably calculates that there are fewer national security risks involved in maintaining some control over the tribals than in ignoring them or forcing them to return to Bangladesh. It probably also believes it is not a serious enough issue to disrupt efforts to improve Indo-Bangladesh relations in other areas.

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Near East and
South Asia Briefs

Saudi Arabia	Problems With the Tornados [redacted]	25X1
	<p>Saudi Arabia is experiencing maintenance difficulties with its newly acquired Tornados that may postpone fielding of an operational squadron. [redacted]</p> <p>[redacted] four of the six Saudi Tornados were grounded because of leaks in the fuel and hydraulic systems, probably caused by exposure to the hot Saudi climate. [redacted]</p> <p>[redacted] sand was causing considerable damage to the aircraft's engines, which will require major overhaul much sooner than expected. Saudi Arabia had similar experiences with F-15s purchased from the United States, but design changes to the turbine blades corrected the problem. The lack of trained maintenance crews is compounding the problems. The newly designed Tornado is probably experiencing more failures than usual because of the desert environment. The Saudi timetable for deploying a combat-capable Tornado squadron will have to be extended unless its maintenance record improves. [redacted]</p>	25X1 25X1 25X1 25X1 25X1
Brazil-Iraq	Volkswagen-Oil Deal Stalls [redacted]	25X1
	<p>Brazil has suspended its \$630 million countertrade deal with Iraq—signed in December 1984—under which 100,000 Brazilian Volkswagens were to be bartered over 25 months for Iraqi oil. Rio de Janeiro blames domestic labor problems for the action, but it is almost certain that falling oil prices were responsible. Brazil agreed to accept a quantity of oil—determined by the spot-market price of \$27 per barrel at the time the contract was signed—and to absorb all transport and storage costs. With oil prices declining to about \$8 per barrel, Brazil faced substantial losses on the deal even though Iraq raised the monthly amount of oil shipped.</p> <p>[redacted]</p>	25X1

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